Economic Sanctions and Shared Supply Chains: a Firm-Level Study of The Contagion Effects of Smart Sanctions on The Performance of Nontargeted Firms

Jie Sun, Lewis Makosa, Jinkun Yang, Makosa Darlington, Fangyuan Yin, Moses Jachi

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Abstract

We examine the effects of targeted economic sanctions on the performance of nontargeted firms sharing a common supply chain with targeted firms. We build on sanctions literature and contagion theory to develop a conceptual model that encapsulates the nexus between targeted sanctions, supply chains, and firm performance. Drawing on data from Zimbabwe, we find that nontargeted firms in the same supply chain as sanctioned firms perform poorly compared with other non-sanctioned firms, signaling the effects of contagion. The mediation test indicates that economic sanctions reduce the performance of nontargeted supply chain member firms through reducing sales and increasing the cost of products, showing significant mediating effects. We also show that exports greatly affect nontargeted firms that depend heavily on targeted firms, whereas imports have a relatively low impact. The results of this study extend previous research on the adverse consequences of economic sanctions and supply chain networks and provide important guiding significance for firm managers, investors and policymakers on how to respond to smart sanctions.

Keywords

Supply Chain, Economic Sanctions, Nontargeted Firms, Performance, Targeted